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17
18 **UNITED STATES DISTRICT COURT**
19 **SOUTHERN DISTRICT OF CALIFORNIA**
20

21 DEEP SKY SOFTWARE, INC., a
22 California Corporation,

23 Plaintiff,

24 vs.

25 SOUTHWEST AIRLINES CO., a
26 Delaware Corporation,

27 Defendant.
28

Case No. 10-CV-01234-CAB (KSC)

**Southwest's Reply In Support of Its
Application for Reasonable and
Necessary Fees Pursuant to the Court's
June 1, 2015 Order [Doc. No. 49]**

1 Deep Sky's Amended Objections [Doc. No. 55] to Southwest's Application for
2 Fees [Doc. Nos. 51 and 53] includes three primary arguments:

- 3 1) the Court is not legally permitted to award fees under 35 U.S.C. § 285 for
4 handling proceedings before the Patent Office, including the reexamination
5 of the only patent-in-suit, the '770 Patent [Doc. No. 55 at 2-4];
- 6 2) the Court should not award Southwest the fees it spent defending itself in
7 this litigation because "inequitable conduct was never litigated in this
8 court" [Doc. No. 55 at 5]; and
- 9 3) Southwest's fees for handling the exceptional case motion and request for
10 attorneys' fees were not reasonable [Doc. No. 55 at 5].

11 None of these arguments has any merit. Further, Deep Sky has failed to
12 provide the Court with any evidence or support for its argument that Southwest's fees
13 were unreasonable. Accordingly, the Court should award Southwest **\$387,182.91** as
14 an award of attorney's fees under Section 285, under the Court's inherent authority,
15 and as taxable costs, as detailed in Southwest's Application for Fees [Doc. Nos. 51
16 and 53].

17 **I. Deep Sky does not dispute or object to a number of issues.**

18 **A. No dispute regarding the reasonableness of Southwest's**
19 **requested fees.**

20 An application for attorney's fees must be evaluated for reasonableness
21 compared to the "lodestar," which the Supreme Court holds as the "guiding light of
22 [its] fee-shifting jurisprudence." *Perdue v. Kenny A. ex rel. Winn*, 559 U.S. 542, 551
23 (2010). "The fees awardable must be reasonable in amount, both in terms of the rate
24 and the number of hours spent." *See Lam, Inc. v. Johns-Manville Corp.*, 718 F.2d
25 1056, 1068 (Fed. Cir. 1983). Deep Sky does not dispute that, under a "lodestar"
26 analysis, Southwest's requested fee award is reasonable. Deep Sky does not dispute
27 that the hourly rates charged by Southwest's lawyers were reasonable, nor does Deep
28 Sky dispute that the amount of time spent on the matter is reasonable (except for the

1 fees for the exceptional case motion and attorneys' fees submission, discussed
2 below). Deep Sky also does not dispute that the fees incurred for handling the
3 reexamination of the '770 Patent were reasonable. Further, Deep Sky does not dispute
4 the fact that Southwest's fees and costs incurred defending itself from this case were
5 reasonable as compared to data from AIPLA's Economic Survey.

6 **B. No dispute regarding Southwest's request for costs.**

7 Deep Sky does not dispute that the Court can award non-taxable costs under
8 Section 285, nor does Deep Sky object to Southwest's request for **\$23,082.48** in non-
9 taxable costs under Section 285. Lastly, Deep Sky does not object to Southwest's
10 request for **\$4,367.26** in taxable costs under 28 U.S.C. § 1920.

11 **C. No dispute that the Court may award attorneys' fees under**
12 **its inherent authority.**

13 A court may also award fees to a successful party under its inherent equitable
14 power. *See Hall v. Cole*, 412 U.S. 1, 15 (1973). Deep Sky does not dispute that, in
15 addition to Section 285, the Court may award fees under the Court's inherent
16 authority.

17 **D. No dispute that Southwest is entitled to a fee award of at**
18 **least \$205,784.38.**

19 Deep Sky does not dispute that Southwest is entitled to a fee award of at least
20 \$205,784.38. Under Deep Sky's analysis, that fee award is for the litigation alone,
21 and excludes fees associated with the reexam for the '770 Patent (the only patent-in-
22 suit). Thus, the dispute between the Parties regarding Southwest's Application for
23 Fees is about whether Southwest is entitled to an additional \$181,398.53 in fees
24 associated with the reexam for the '770 Patent and fees for handling the exceptional
25 case motion and submission of attorneys' fees. As detailed below, Southwest is
26 entitled to the full amount requested in its Application for Fees [Doc. Nos. 51 and
27 53], namely **\$387,182.91**.
28

1 **II. The Court is legally permitted to award fees for the**
2 **reexamination under Section 285.**

3 Deep Sky's primary argument is that the Court is not legally permitted to
4 award attorneys' fees under Section 285 for proceedings before the Patent Office.
5 Deep Sky stated that "there is no authority, either via statute or case law, that would
6 allow Southwest to recover attorney's fees for the '770 Patent-in-Suit reexamination
7 proceeding." [Doc. No. 55 at 3]. Attached as Exhibit A are three cases where courts
8 have awarded attorneys' fees under Section 285 for proceedings before the Patent
9 Office.

10 The first is *PPG Indus., Inc. v. Celanese Polymer Specialties Co.*, 840 F.2d
11 1565, 1567 (Fed. Cir. 1988). During litigation, defendant Celanese uncovered a prior
12 art reference that invalidated the patents-in-suit. Celanese also discovered that the
13 plaintiff, PPG, knew about this reference but did not disclose it to the PTO during the
14 original prosecution of the patents. *See PPG Indus., Inc. v. Celanese Polymer*
15 *Specialties Co.*, 840 F.2d 1565, 1566 (Fed. Cir. 1988). The parties engaged in
16 adversarial reissue application proceedings in the PTO, which was allowed at the
17 time (before the PTO created *inter partes* reexaminations in 1999). *Id.* at 1567. The
18 district court stayed the litigation pending the outcome of these PTO proceedings.
19 The PTO invalidated the claims at issue based on the plaintiff PPG's inequitable
20 conduct. *Id.* at 1566.

21 After the PTO proceedings concluded, the district court awarded defendant
22 Celanese attorneys' fees under Section 285, but declined to award any fees for
23 Celanese's participation in the PTO proceedings. *Id.* at 1568. On appeal, the Federal
24 Circuit reversed, holding that Celanese was entitled to attorneys' fees for the PTO
25 proceedings: "The parties and the district court clearly intended to replace the district
26 court litigation with the reissue proceedings," and defendant Celanese "perform[ed]
27 in the PTO precisely the same type of work Celanese would have performed had the
28 case proceeded to trial." *Id.* The Federal Circuit held that defendant "Celanese is

1 entitled to reasonable attorney fees based upon the premise that the reissue
2 proceedings substituted for the district court litigation on all issues considered by the
3 PTO and the Board.” *Id.* at 1569.

4 This case is no different. Here, Deep Sky and Southwest agreed to litigate the
5 invalidity of the ’770 Patent before the PTO. In fact, in moving to stay the litigation
6 pending the reexam proceeding, Deep Sky agreed that “the reexamination has the
7 potential to greatly simplify and reduce the issues that the Court will have to decide”
8 and that “if the USPTO determines that any claims are invalid, the stay would avoid
9 this Court from having to expend any judicial resources on this case.” [Doc. No. 26 at
10 2, Joint Stipulation and Motion to Stay]. And because the PTO invalidated all of the
11 asserted claims of the ’770 Patent, the Parties were not required to litigate
12 infringement or invalidity before the Court. Like *PPG v. Celanese*, Deep Sky and
13 Southwest litigated the issue of invalidity before the PTO. And like defendant
14 Celanese, Southwest is entitled to its attorneys’ fees for handling the PTO
15 proceeding—namely the reexam of the ’770 Patent. Notably, Southwest would have
16 been required to perform the same work in litigation as it did before the PTO, namely
17 demonstrating that the ’770 Patent is invalid based on the prior art and that Dr.
18 Gorman committed inequitable conduct during the original prosecution by failing to
19 disclose the VS FlexGrid program.

20 In a more recent case, the District of Maryland in 2012 awarded attorneys’ fees
21 to a party for time spent handling a reexamination. In *IA Labs CA, LLC v. Nintendo*
22 *Co.*, No. CIV. PJM 10-833, 2012 WL 1565296 (D. Md. May 1, 2012) *aff’d*, 515 F.
23 App’x 892 (Fed. Cir. 2013), the court found that the case was exceptional and then
24 turned to the award of attorney fees under Section 285 for defendant Nintendo. As
25 part of its fee request, Nintendo asked for “fees incurred as a result of filing a petition
26 for reexamination before the PTO.” *IA Labs CA, LLC v. Nintendo Co.*, 2012 WL
27 1565296, at *4. Plaintiff IA Labs objected to Nintendo’s requested attorneys’ fees by
28 arguing that the court “should not award fees For [sic] this non-mandatory, non-

1 judicial proceeding.” *Id.* Over those objections, the court awarded Nintendo attorneys
2 fees under Section 285, which included those hours billed for handling the reexam.¹

3 In *Howes v. Med. Components, Inc.*, 761 F. Supp. 1193 (E.D. Pa. 1990), a
4 district court awarded fees related to a reexam under Section 285. In addressing a
5 number of objections regarding fees for different law firms, the court examined the
6 requested fees and determined fees from one law firm “relate[d] specifically to the
7 reexamination proceedings,” and that such fees “were reasonably necessary to this
8 litigation, especially considering how important the two reexamination proceedings
9 were to this litigation.” *Id.* at 1198.

10 In contrast, Deep Sky cites the case of *Ohio Willow Wood Co. v. Alps S., LLC*,
11 No. 2:04-CV-1223, 2014 WL 4775374 (S.D. Ohio Sept. 24, 2014) for the proposition
12 that the Court is not legally permitted to award fees for handling proceedings before
13 the PTO. “Under the law as shown in cases such as *Ohio Willow Wood*, attorney’s
14 fees may be awarded only for fees incurred during the actual litigation in federal
15 court, and not for USPTO administrative proceedings.” [Doc. No. 55 at 3]. But the
16 court in *Ohio Willow Wood* did not even address this particular issue because the
17 court did not address the amount of the fee award. The court only addressed whether
18 the case was exceptional.

19 The *Ohio Willow Wood* court held that defendant “Alps is entitled to judgment
20 in its favor on its claim that [plaintiff Ohio Willow Wood] engaged in inequitable
21 conduct during the second reexamination proceedings,” and that “Alps is entitled to
22 its attorneys’ fees incurred [after the conclusion of the second reexam].” *Ohio Willow*
23 *Wood*, 2014 WL 4775374, at *47. The court did not discuss whether defendant Alps
24 could recover attorneys’ fees for filing the petition for *ex parte* reexam under Section
25

26 ¹ The court reduced the total amount requested by Nintendo by recalculating the attorneys’ fees by
27 using the guidelines for hourly rates set forth in the local rules for the District of Maryland, but
28 the court did not eliminate the hours spent handling the reexam.

1 285 because Alps had not yet submitted its application for attorneys' fees. The *Ohio*
2 *Willow Wood* court simply held that the plaintiff committed inequitable conduct
3 during the second reexam, and that defendant Alps is entitled to its fees after the
4 conclusion of the second reexam (i.e., after the inequitable conduct occurred).

5 This case says nothing at all about whether a party can or cannot recover fees
6 for PTO proceedings, and thus does not support Deep Sky's position that the Court is
7 not legally permitted to award attorneys' fees for PTO proceedings under Section
8 285. *Ohio Willow Wood* did find that the defendant was entitled to attorneys' fees
9 under Section 285 for all activities that occurred after the plaintiff committed
10 inequitable conduct. Southwest submits that the Court should apply the same
11 principle as in *Ohio Willow Wood* by awarding Southwest its requested fees for this
12 litigation and the reexam of the '770 Patent since all of these activities were
13 performed after Deep Sky committed inequitable conduct in connection with the
14 original prosecution of the '770 Patent.

15 The Court has discretion to award attorneys' fees for handling proceedings
16 before the PTO. Deep Sky's reliance on *Ohio Willow Wood* is misplaced. Southwest
17 submits that because the Parties agreed to litigate the invalidity of the '770 Patent
18 before the PTO in an *inter partes* reexam (which saved the Parties and the Court
19 valuable time and resources), the Court should award Southwest its fees for handling
20 the reexam of the '770 Patent. To be clear, Southwest has not requested an award of
21 fees in connection with the '047 Patent (the related patent not asserted in the lawsuit).
22 Southwest has only requested fees and costs in connection with the litigation and the
23 reexamination of the '770 Patent (the patent-in-suit).

24 **III. The Court should ignore Deep Sky's attempt to relitigate the**
25 **exceptional case finding.**

26 Deep Sky argues that the Court should not award Southwest its requested fees
27 because the inequitable conduct issue was not fully litigated. [Doc. No. 55 at 5]. But
28 this is a separate issue that has already been decided. The Court declared this an

1 exceptional case, and Deep Sky's attempt to argue that the Court was wrong is not a
2 proper basis to reduce an award of attorneys' fees. Further, Deep Sky is incorrect that
3 it did not have an opportunity to address these issues. Deep Sky's conduct involving
4 the VS FlexGrid program were addressed during the '770 reexam before the PTO and
5 before this Court on the exceptional case motion. Deep Sky had every opportunity to
6 address these issues and present evidence in its favor.

7 The Court found that this is an exceptional case because Dr. Gorman claimed
8 the features of VS FlexGrid as his own invention, and then withheld information
9 about the program from the PTO during the initial prosecution of the application
10 leading to the '770 Patent. [Dkt. No. 49, Order Finding this an Exceptional Case, 6-
11 7]. The Court found that Dr. Gorman's "decision to withhold disclosure of this
12 software program during the initial prosecution of the patent, and to affirmatively
13 represent that commercially available programs did not have the claimed capability of
14 the invention, was deceptive. A finding of exceptional case is justified in these
15 circumstances." *Id.* The Court also held that Deep Sky's "failure to identify [the VS
16 FlexGrid program] and produce it [pursuant to Local Patent Rule 3.2.b] violated the
17 good faith requirements of the local patent rule" and also supported finding this an
18 exceptional case. *Id.* at 7.

19 Dr. Gorman is not only the sole inventor of the '770 Patent, but also a principal
20 of Deep Sky. Therefore Deep Sky has presumably always had full access to all
21 relevant information and discovery on this issue. No additional amount of discovery
22 would change these facts. If Dr. Gorman had evidence demonstrating a lack of
23 deceptive intent, he had several opportunities to present that evidence to the PTO and
24 to this Court. Further, Deep Sky had the opportunity to appeal the PTO's findings on
25 these issues, but declined to do so. Deep Sky also has the opportunity to appeal this
26 Court's rulings and be heard on this issue once more. Contrary to Deep Sky's
27 argument, Deep Sky had several opportunities to be heard on these issues and failed
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1 to present evidence that would alter the PTO's and the Court's analysis. The Court
2 should not adjust its fee award based on an issue that has already been decided.

3 **IV. The Court should ignore Deep Sky's requested adjustments.**

4 Deep Sky provides a listing of requested adjustments totaling over \$220,000 on
5 pages 6-8 of its Response. [Doc. No. 55 at 6-8]. These adjustments are listed as
6 eliminating or greatly reducing entire invoices. Deep Sky's primary argument for
7 these adjustments is that the Court cannot award fees for PTO proceedings. As
8 discussed above, the Court may award fees for handling PTO proceedings, including
9 the reexam of the '770 Patent.

10 Deep Sky admits that the Court can award fees for litigation activities. Yet
11 Deep Sky does not attempt to just exclude time spent handling PTO proceedings.
12 Instead, Deep Sky subtracts the total amount of any invoice (or a substantial
13 percentage of the total invoice) that includes any time spent handling reexam
14 activities—without regard to the fact that the invoice also has time for handling the
15 litigation. This is simply improper. For example, Deep Sky asks the Court to deduct
16 100% of the invoice dated on 5/9/2011. [Doc. No. 55 at 6]. But a cursory review of
17 that invoice shows many time entries spent preparing Southwest's invalidity
18 contentions and reviewing Deep Sky's document productions. Deep Sky also asks the
19 Court to subtract 75% of the invoice dated 6/6/2011 without any explanation. Yet this
20 invoice also has many litigation time entries related to preparing Southwest's
21 invalidity contentions. These two invoices are attached as Exhibit B for the Court's
22 convenience with highlighting to show the litigation activities.

23 By contrast, Southwest performed a detailed analysis on over 4.5 years of
24 individual time entries to calculate its requested fee, and specifically to exclude time
25 spent handling the reexam of the '047 Patent. Southwest presented the results of the
26 analysis in its Application for Fees [Doc. No. 51]. If Deep Sky had objections, Deep
27 Sky should have pointed to specific time entries (or category of time entries), not
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1 whole invoices. Accordingly, Deep Sky's wholesale deduction of entire invoices
2 without any detailed explanation should be ignored.

3 **V. Deep Sky fails to explain why fees spent handling the exceptional**
4 **case and attorneys' fees motions were unreasonable.**

5 Deep Sky argues that the fees spent handling the exceptional case and
6 attorneys' fees motions are excessive and should be cut in half. [Doc. No. 55 at 5].
7 However, Deep Sky offers no basis or evidence to support its argument, such as any
8 comparable attorneys' fees awards for handling these types of motions. Further, Deep
9 Sky does not object to the hourly rates charged for handling these matters, or to any
10 specific time entries associated with the motions. Deep Sky also does not object to
11 the amount of time Southwest spent preparing the motion and attorney fee
12 application. Without question the motion and fee application were important and
13 relatively complex documents. The exceptional case motion dealt with a long factual
14 history involving this litigation and the reexam of the '770 Patent. Following the
15 Court's granting of the exceptional case motion, Southwest diligently prepared its fee
16 request by summarizing over 4.5 years of bills and excluding or discounting specific
17 time entries for handling the '047 Patent reexam. Southwest also submitted the
18 declarations of Max Ciccarelli and John Giust, both experienced patent litigators,
19 testifying to the reasonableness of the fees, and included data from AIPLA's
20 Economic Survey for comparison purposes. Deep Sky did not submit any
21 contradictory evidence or testimony. Deep Sky simply presents attorney argument
22 that the fees for these activities should be cut in half.

23 Southwest submits that the time it spent preparing the motions and submissions
24 was in fact reasonable and necessary. For example, it was necessary and time
25 consuming to analyze each time entry for 4.5 years of invoices to ensure that
26 Southwest's fee request was limited to time spent on the litigation and the
27 reexamination of the '770 Patent, and excluded time spent handling the reexam for
28 the '047 Patent.

1 A similar objection was raised in *the Howes v. Med. Components* case
2 discussed above. In 1990 in a request for attorneys' fees under Section 285, the
3 "plaintiffs request[ed] \$45,536.00 for preparing the fee petition." *Howes*, 761 F.
4 Supp. 1193, 1200. Like Deep Sky here, "Defendants summarily contend[ed] that
5 plaintiffs' requested fees for preparation of their fee petition is unreasonable on its
6 face and request this court to reduce the amount by 70%—a 50% reduction for a rate
7 adjustment and a 20% reduction for duplications of efforts." *Id.* And like Deep Sky,
8 the "defendants [did] not point to any record evidence to support their argument that
9 the time spent in preparation of the fee petition was excessive." *Id.* Accordingly, the
10 *Howes* court "conclude[d] that the time spent preparing the fee petition was
11 reasonable and not excessive." *Id.*

12 Deep Sky has not provided any comparison to demonstrate that Southwest's
13 fees for the exceptional case motion and attorney fee application were unreasonable.
14 On the other hand, Southwest provided considerable evidence—including declarations
15 and the invoices showing the individual time entries—of the actual work that was
16 done, the number of hours the work took, and the fact that the work was necessary in
17 part to ensure that only relevant time entries were included in its request.
18 Accordingly, Southwest asks the Court to award the total amount of fees requested.

19 **VI. Conclusion & Request for Final Judgment**

20 As set forth in Southwest's Application for Fees [Doc. Nos. 51 and 53],
21 Southwest hereby requests **\$387,182.91** as an award of attorney's fees under Section
22 285, under the Court's inherent authority, and as taxable costs. Southwest also
23 requests that the Court enter final judgment in this matter.
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1 DATED: August 10, 2015

Respectfully submitted,

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12
13 **CERTIFICATE OF SERVICE**

14
15 I hereby certify that on August 10, 2015, I electronically filed the foregoing
16 document with the Clerk of the Court using the CM/ECF System.
17

18 s/ Justin S. Cohen

19 Justin S. Cohen
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